

SUBJECT: Financing of water projects

COMMITTEE: Natural Resources: committee substitute recommended

VOTE: 9 ayes--Craddick, Shaw, Geistweidt, Buchanan, Clark,
Godwin, J. Harris, Roberts, Staniswalis

0 nays

WITNESSES: For--Charles E. Nemir and Herbert W. Grubb, Texas
Department of Water Resources; Gerhardt Schulle, Jr.,
Texas Society of Professional Engineers; A. Wayne
Wyatt, High Plains Underground Water Conservation
District No. 1 and West Texas Chamber of Commerce; I.
M. Rice, Trinity Improvement Association and Dallas
Chamber of Commerce; Tom Pugh, Texas Rural Water
Association; Dick Ingram, Gulf Coast Conservation
Association; Fred N. Pfeiffer, San Antonio River
Authority; Ted C. Willis, Texas Municipal League

Against--Paul Peters, farmer; Ken Kramer, Sierra Club;
Rhea Copenig, National Audubon Society; Stuart Henry,
Sierra Club (also testified for, in part); Rodney
Reagan (also testified for, in part)

On--Louis A. Beecherl, Jr., Reg Arnold, and Tommy
Knowles, Texas Department of Water Resources; William
R. Farquhar, Lavaca-Navidad River Authority; Leland E.
Roberts, Texas Parks and Wildlife Department; Rick
Piltz, Texas Department of Agriculture; Bill Tenison,
Texas Association of Builders; Linda Lerway, Texas
Shrimp Association; Ed Small, Texas and Southwestern
Cattle Raisers Association; Vernie R. Glasson, Texas
Farm Bureau; Catherine Perrine, League of Women Voters
of Texas; Mark J. Hanna, Texas Association of
Realtors; Neil B. Travis, Texas Department of Health

BACKGROUND: Texas voters approved constitutional amendments in
1957 and 1966 authorizing the state to issue \$400
million in general-obligation bonds for water-
development projects (\$200 million in each election).
In 1971 and 1976, voters approved \$200 million more
(\$100 million in each election) in water-development
bonds to be used for water-quality enhancement
(sewage-treatment plants). The Texas Water
Development Board, which is the governing board of the
Texas Department of Water Resources (TDWR),
administers the bond program and puts the proceeds of
bond sales in the Water Development Fund.

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BACKGROUND: The board has used some of the money from the Water Development Fund to buy a share of the storage capacity in new reservoirs, for later resale to local political subdivisions. Most of the bond money is lent in various forms to municipalities and water districts to be used to buy land and build dams, reservoirs, pipelines, pumping facilities, and treatment plants.

Of the current \$400-million bonding authorization for water-development projects, \$68.6 million is as yet unissued. Of the current \$200 million authorization for water-quality projects, \$50 million remains unissued.

DIGEST: CSHJR 6 would amend the Constitution to authorize an additional \$800 million in bonds for the Water Development Fund (WDF). Of this amount, \$200 million would be earmarked for flood-control projects, \$200 million for water-quality enhancement, and \$200 million for purchase by the Water Development Board of up to a 50-percent share of new reservoirs. The remaining \$200 million could be spent for any of the following: flood control, reservoirs, water-conveyance or water-treatment facilities, desalinization, or additional storage acquisition by the board.

The constitutional amendment would also authorize direct appropriations of state money to new special funds in the state treasury for water conservation, water development, water-quality enhancement, flood control, drainage, subsidence control, aquifer recharge, chloride control, agricultural soil and water conservation, or any combination of these purposes.

CSHJR 6 would also authorize a "bond-insurance program" through which the state would pledge up to \$250 million of its credit to guarantee against default both local political subdivisions' bonds and the bonds of nonprofit water-supply corporations. Under CSHJR 6, the Legislature would set the ratio of bonds insured to the state's total liability for those bonds (the leverage ratio) in implementing legislation (see following analysis of CSHB 2).

The proposed constitutional amendment would be on the Nov. 5, 1985, ballot.

SUPPORTERS
SAY:

Adoption of this amendment would partially meet local political subdivisions' needs over the next decade for state aid in financing increasingly expensive water-supply, wastewater-treatment, flood-control, and other water-related projects. Rapid population and economic growth is putting great stress on Texas' water resources and on the ability of local governments to meet water demand and treat sewage. State help with the expense of reservoir construction allows needed resources to be developed sooner and at lower cost.

Local subdivisions' bonds are good investments. No local subdivision has ever defaulted on a loan from the Water Development Fund. A cash-flow imbalance, which in the past required draws on general-revenue funds to make some repayments due on state water bonds, has not recurred since 1980.

Nonprofit water-supply corporations should be made eligible for the bond-guarantee program, because the federal loans that supported these consumer-owned, mostly rural operations in the past have declined substantially since 1979. Bank loans are either not available to them or too expensive.

OPPONENTS
SAY:

More money is needed for water projects, but not this much. Conservation is a much cheaper way of stretching the state's water supply to meet projected demand. For necessary projects, the \$300 million proposed in last session's Senate water package would be plenty, yet CSHJR 6 would nearly triple that amount.

The authorization of \$200 million in bonds for flood control should specify that the funds would be available for nonstructural methods (e.g., conversion of floodplain to parkland) as well as structural methods such as construction of dikes.

The Water Development Fund does not have to pay back any general-revenue funds that it draws. Currently, income from local subdivisions' repayments of WDF loans is used to pay interest and principal on state bonds. If that income is not enough to service the state's debt, general-revenue funds are transferred.

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OPPONENTS If the WDF's income exceeds debt-service requirements,
SAY: it stays in the WDF instead of going back with
(continued) interest to general revenue. The proposed amendment
 ignores this problem.

Nonprofit water-supply corporations should not be eligible for the bond-guarantee program, because they are too risky. They have no tax base, only a rate base, with which to repay their debt.

OTHER
OPPONENTS
SAY:

According to the recently amended state water plan, in the next decade Texas will need much more money for water and wastewater projects than CSHB 2 and CSHJR 6 would provide. The amounts proposed are a step in the right direction, but three times as much will be needed.

NOTES: As compared to HJR 6 as introduced, CSHJR 6:

- Adds \$200 million in bond authorization for flood control.
- Adds desalinization as an authorized purpose of direct appropriations and of the bond-guarantee program.
- Makes private, nonprofit, consumer-owned water-supply corporations eligible for the bond-guarantee program.
- Deletes the requirement of legislative approval of individual water-storage projects in which the state would own a share.
- Reserves for political subdivisions of the state the financial assistance from appropriations to the new special funds.
- Places the amendment on the ballot in November 1985 rather than November 1986.